

Message Text

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C O N F I D E N T I A L JAKARTA 6705

STADIS////////////////////////////////////

EO 11652: GDS

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SUBJECT: GAO COUNTRY TEAM SURVEY ON US PROGRAMS IN INDONESIA

1. INTRODUCTION: GAO INVESTIGATORS WILLIAM BERNSDORF AND JOHN SIMON LEFT JAKARTA MAY 24 AFTER THREE-WEEK INVESTIGATION OF US PROGRAMS IN INDONESIA. THEY WERE JOINED DURING LAST THREE DAYS OF VISIT BY JAMES KURIHARA, DEPUTY, GAO FAR EAST DIVISION, HONOLULU. SIMON AND BERNSDORF ACKNOWLEDGED ON ARRIVAL THAT THEIR BRIEFINGS IN WASHINGTON ON US PROGRAMS HERE WERE LIMITED AND THAT THEY WERE APPROACHING SUBJECT WITH LITTLE ADVANCE KNOWLEDGE. DURING THEIR STAY, THEY HAD READY ACCESS TO MISSION STAFF AND CONDUCTED EXTENSIVE INTERVIEWS, GIVING SPECIAL ATTENTION TO USAID AND USDLG PROGRAMS. THEY TOLD EMBOFF ON DEPARTURE THAT THEIR INVESTIGATION WAS LESS COMPLETE THAN EARLIER, MORE EXHAUSTIVE STUDIES OF SMALLER US PROGRAMS IN BANGLADESH AND SINGAPORE. JUDGING FROM QUESTIONS THEY ASKED DURING PRE-DEPARTURE SESSIONS WITH AMBASSADOR, USAID AND POL, THEY APPEARED TO HAVE ARRIVED AT CONCLUSIONS THAT ARE, FOR MOST PART, CRITICAL OF CONTINUED MAJOR USAID AND USDLG PROGRAMS HERE AT A TIME WHEN INDONESIAN FINANCIAL RESOURCES ARE GROWING. MAIN ELEMENTS OF THEIR CRITICISMS AND OUR RESPONSE ARE SUMMARIZED AS FOLLOWS. END INTRODUCTION.

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2. JUSTIFICATION FOR CONTINUED ECONOMIC AND MILITARY

ASSISTANCE. GAO TEAM QUESTIONED NEED FOR CONTINUED MAJOR US CONCESSIONAL AID TO INDONESIA IN LIGHT OF RAPID INCREASE IN GOI REVENUES. THEY ADVANCED VIEW THAT INDONESIA COULD READILY AFFORD TO PAY FOR EXPERTISE AND CAPITAL IT NEEDS AT MARKET PRICES AND THAT US COULD EXPRESS ITS INTEREST IN AND SUPPORT FOR INDONESIA AND PROTECT ITS POLITICAL AND ECONOMIC INTERESTS HERE IN OTHER WAYS. THEY EXPRESSED SIMILAR DOUBTS ABOUT CONTINUED MILITARY ASSISTANCE.

3. IN RESPONSE, WE EXPLAINED IMPORTANT ROLE US ECONOMIC AND MILITARY ASSISTANCE HAVE PLAYED IN RECOVERY AND DEVELOPMENT OF INDONESIA SINCE 1966. WE ALSO EMPHASIZED SUBSTANTIAL POLITICAL AND ECONOMIC BENEFITS WE HAVE GAINED AS RESULT. ABRUPT TERMINATION OF ASSISTANCE NOW WOULD RISK ABANDONMENT TO OTHERS OF BENEFITS OF THIS INVESTMENT--INCLUDING COMMERCIAL LIABILITIES WHICH INCREASED GOI REVENUES WILL OPEN UP. ALSO, RAPID TERMINATION OF ASSISTANCE COULD ENCOURAGE ANTI-WESTERN, XENOPHOBIC ELEMENTS IN INDONESIA WHO OPPOSE RATIONAL, MODERNIZING APPROACH OF CURRENT INDONESIAN LEADERSHIP. NEVERTHELESS, BECAUSE OF INDONESIA'S CHANGED FINANCIAL CIRCUMSTANCES, US AID MUST NECESSARILY BECOME LESS CONCESSIONAL; BUT CONTINUED CONCESSIONAL AID IN DIMINISHING MAGNITUDES IS NEEDED DURING TRANSITION TO SELF-SUFFICIENCY. WE HAVE SUCCESSFULLY BEGUN TRANSITIONAL ADJUSTMENT OF ECONOMIC ASSISTANCE WITH REDUCED 1974/75 IGGI PLEDGE, AND PLAN PHASING DOWN OF GRANT MILITARY ASSISTANCE THROUGH USE OF FMS. (EMBASSY IS PREPARING FULL CABLE OF RECOMMENDATIONS ON TRANSITION.)

4. AMBASSADOR NOTED THAT CONGRESS, WHILE QUESTIONING CONTINUED ECONOMIC ASSISTANCE, REJECTED LEGISLATION WHICH DEPARTMENT HELPED DRAFT IN 1973 THAT WAS DESIGNED TO FACILITATE TRANSITION TOWARD SELF-SUFFICIENCY BY PROVIDING PROCEDURES BY WHICH COUNTRIES COULD CONTINUE TO OBTAIN US GOVERNMENT TECHNICAL ASSISTANCE ON REIMBURSABLE BASIS.

5. CORRUPTION, INEQUALITY AND POLITICAL REPRESSION.
GAO TEAM EXPRESSED PARTICULAR CONCERN THAT CORRUPTION
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IS UNDERMINING DEVELOPMENT IN INDONESIA. THEY SUGGESTED US, IGGI OR WORLD BANK TAKE FORCEFUL MEASURES, IN PUBLIC IF NECESSARY, TO PERSUADE GOI TO END CORRUPTION, PERHAPS AS CONDITION TO CONTINUED AID. WE STRESSED PRACTICAL DIFFICULTIES WE SAW IN EXTERNAL ANTI-CORRUPTION CAMPAIGN OR IN ATTACHING CONDITIONS RELATING TO CORRUPTION TO AID AGREEMENTS (E.G. HOW TO DEFINE CORRUPTION, HOW TO MONITOR/CORRECT CORRUPT PRACTICES INVOLVING FOREIGN,

INCLUDING US, FIRMS, ETC.) THEY ALSO FOCUSSED ON DISPARITIES AND UNEMPLOYMENT IN INDONESIA IN SPITE OF NEW WEALTH AND OUTSIDE ASSISTANCE, AND SUGGESTED THAT AID PROGRAMS TEND TO REINFORCE STATUS QUO AND HELP THE RICH. IN POLITICAL REALM, THEY CRITICIZED GROWING AUTHORITARIANISM OF GOI AND WONDERED IF OUR ATTACHMENT TO SUHARTO REGIME MIGHT BRAND US AS REACTIONARY IN EYES OF INDONESIANS.

6. WE EXPLAINED THAT CORRUPTION, ECONOMIC INEQUALITY AND AUTHORITARIAN POLITICAL BEHAVIOR ARE LEGACIES OF HISTORY AND CIRCUMSTANCES COMMON TO MANY DEVELOPING COUNTRIES AND WILL BE ELIMINATED ONLY THROUGH GRADUAL DEVELOPMENT OF MODERN INSTITUTIONS. US ASSISTANCE HAS HELPED FURTHER AND ACCELERATE MODERNIZATION; BUT THERE ARE NO RAPID SOLUTIONS TO THESE PROBLEMS. US OR OTHER FOREIGN EFFORTS TO FORCE SOLUTIONS TO COMPLEX PROBLEMS SUCH AS CORRUPTION THROUGH THREATS OR PUBLIC PRESSURE WOULD BE FUTILE AND DAMAGING TO OUR RELATIONS. US HAS MAINTAINED GOOD RELATIONS WITH AND HAS BUILT UP RESPECT AND GOOD WILL AMONG ALL RESPONSIBLE ELEMENTS IN INDONESIA.

7. GAO TEAM ALSO CRITICIZED USAID'S EFFORT TO REDIRECT PROGRAM IN ACCORDANCE WITH RECENT LEGISLATION, CLAIMING PACE SLOW AND NEW LOAN PROPOSALS DO NOT FIT CONGRESSIONAL CONCEPT OF PROJECTS WITH DIRECT, IMMEDIATE BENEFIT TO POORER ELEMENTS OF POPULATION. THEY CHARACTERIZED MALARIA CONTROL LOAN AS ESSENTIALLY ANOTHER COMMODITY IMPORT PROGRAM AND ASKED WHY SO MUCH (\$24.7 M) IS ALLOCATED TO THIS LOAN COMPARED TO PADAT KARYA (RURAL WORKS) PROGRAM (\$6.5 M) WHICH BETTER FITS CRITERIA.

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8. WE POINTED OUT THAT USAID BEGAN REDIRECTING PROGRAM PRIOR PASSAGE NEW LEGISLATION, THAT ALL NEW LOAN PROPOSALS IN OUR JUDGMENT FIT NEW CRITERIA, EVEN THOUGH LAW ALSO LEAVES PLACE FOR OTHER TYPES OF ASSISTANCE. WE ALSO SUGGESTED THAT THERE MUST BE MINIMUM DEGREE OF CONTINUITY BETWEEN FORMER AND NEW DIRECTIONS AND THAT CRITERIA USED IN JUDGING PROGRAM SHOULD INCLUDE COMPARISON OF NEW WITH OLD PROGRAM AS WELL AS NEW WITH CONCEPT OF IDEAL PROGRAM, WHATEVER THAT MIGHT BE.

9. OTHER CRITICISMS. GAO TEAM EXPRESSED VIEW THAT USAID, USDLG AND USIS ARE TOP-HEAVY AND OVERSTAFFED. THEY NOTED CONCERN OVER ALLEGED LACK OF COORDINATION IN FAMILY PLANNING FIELD. LIKE EARLIER GAO TEAM THAT STUDIED MAP DURING VISIT IN APRIL, THEY

SUGGESTED GOI SHOULD INCREASE CONTRIBUTIONS TOWARD
USDLG SUPPORT COSTS.

10. GAO TEAM'S REPORT WILL BE SUBMITTED TO DEPARTMENT
FOR COMMENTS IN ACCORDANCE WITH FAM 933.
NEWSOM

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